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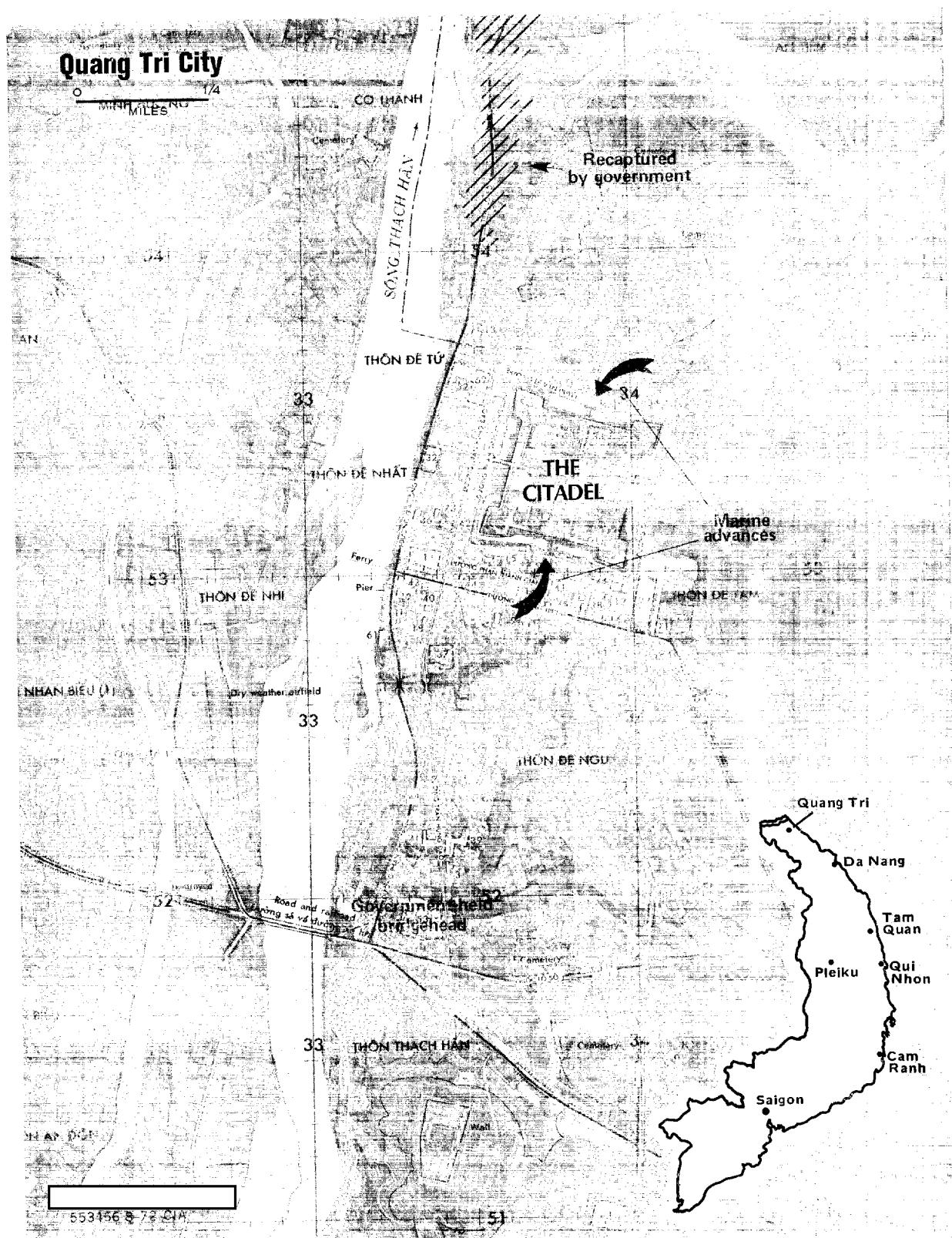
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**SOUTH VIETNAM:** Government forces continue to make some headway in Quang Tri City.

South Vietnamese Marines now hold a key portion of the main road north of the citadel, thus blocking at least part of the enemy's supply route into the fortress. Other South Vietnamese Marine units have edged closer to its southern and northern walls, but heavy Communist artillery shelling appears for the moment to be preventing the entry of these forces through large breaks in the citadel walls.

Enemy artillery shelling and rocket attacks throughout the country have increased in recent days, although Communist ground action remains at a relatively low level outside of the northern provinces. The Communists directed ten long-range rockets into the Pleiku City airfield yesterday, while allied spotter aircraft thwarted a similar attack in the Da Nang area. In coastal Binh Dinh Province, mortar barrages hit government positions in Tam Quan and also a South Vietnamese logistics center at Qui Nhon. Farther south in Khanh Hoa Province, a combined mortar and sapper attack against Cam Ranh Bay caused little damage. A similar enemy effort yesterday against a heavily defended government staging area at Lai Khe, north of Saigon, reportedly resulted in only light government casualties. [redacted]

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WESTERN MEDITERRANEAN: Italian and French leaders recently discussed the possibility of forming a Western Mediterranean group to include Spain, Tunisia, Algeria, Morocco, and perhaps Malta as well as France and Italy.

The tentative agenda for the initial conference to set up the group would concentrate on regional economic aid and technical assistance, tourism, and environment. It would exclude security matters, thus differentiating the meeting from a variety of other Mediterranean conferences proposed in recent months by Yugoslavia, Algeria, and others.

Both France and Spain, aspiring to increase their leadership in the area, in recent years have proposed joint action of Western Mediterranean states. Italy has objected to hints of neutralism in proposals for discussing Mediterranean security in such a forum. Italy has wanted security to remain an undiluted NATO responsibility. Rome is accepting the latest proposal for joint action of Western Mediterranean states perhaps in part because the explicit exclusion of security discussions protects Italy's NATO interests.

Because of its exposed position in the Mediterranean and the possibilities of changes in the balance of power there, Italy also may feel more comfortable if it has closer ties with the Western littoral states.

Paris may hope that formation of a Western Mediterranean group will strengthen its ties with Spain, Italy, and the Maghreb and emphasize the Latin aspect of Europe in the face of the addition of northern countries in the European Communities. Paris may also believe that the proposed group would strengthen France's claim to represent Mediterranean interests, perhaps even in the Conference on Security and Cooperation in Europe.  

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ISRAEL: The treatment of a group of Arab villagers has caused divisions within the government and has again focused attention on policy toward the Arab population.

Several hundred Arab citizens of Israel have been trying to persuade the government to allow them to move back into their villages on the Lebanese border from which they were evicted in 1948. The villagers, who are mostly Christian and who did not fight against the Israelis in 1948, have received support from many Israelis, including even Deputy Prime Minister Yigal Allon.

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In addition, both the left-wing Mapam, a partner in the government alignment, and the opposition right-wing Gahal have indicated their support of the villagers.

The government says it rejected the villagers' plea for security reasons, but an important factor in the prime minister's decision was pressure from Jewish kibbutzniks who fear loss of some of their land to their Arab neighbors.

Support by prominent Israeli politicians for the villagers' cause will increase press and public interest in the case. It will also increase the government's reluctance to change its position, because a government review of the matter in the face of Gahal opposition would be seen as a victory for the opposition. It is conceivable that when the affair quiets down, Mrs. Meir will give in to the villagers in order to prevent a division of the Labor Party and the alignment, especially with parliamentary elections coming up in the fall of next year.

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FINLAND: President Kekkonen arrives in the Soviet Union today under inauspicious circumstances.

The two major projects that he is expected to discuss, recognition of the two Germanies and an EC arrangement for Finland, are going badly for him. The West German cabinet decided on 9 August to ignore Helsinki's call to open talks aimed at establishing full diplomatic relations. Approval of the EC arrangement has been held up because of wrangling over formation of a new government.

Differences among the four possible coalition partners have not been narrowed despite nearly a month of negotiations. The incumbent Social Democrats demand special legislation to protect the domestic economy from effects of the pending EC agreement. They are also arguing over how to fund the expanded pension scheme passed by parliament over their objections. Kekkonen's Center Party is so opposed to the Social Democrats' positions that current alternatives to a majority coalition now being discussed include a non-political caretaker government or a minority coalition without the Social Democrats. No developments are anticipated until after Kekkonen returns on 20 August at the earliest.

Kekkonen is expected to meet with Kosygin at the premier's summer retreat in the Caucasus. Kekkonen's inability to obtain a coalition cabinet will permit the Soviets greater latitude in expressing their preferences on its selection and policies. It now seems unlikely that the Soviets would flatly veto a Finnish trade agreement with the EC, for they recognize that this is an economic necessity for Helsinki. In return, the Soviets will want the Finns to stress publicly their continuing relationship with the USSR and to carry on with CSCE preparations and recognition of both Germanies.

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TUNISIA: President Bourguiba has attempted to end discord within his inner circle by shifting one of his closest advisers to a cabinet post.

On 9 August Bourguiba removed Abdallah Farhat from his position as director of the cabinet and named him minister of defense, replacing Bechir Mhedhebi, who recently lost favor with the President. Bourguiba's action probably came in response to pressure from other members of his official entourage who have wanted to reduce Farhat's direct influence on the President. Farhat is accused of withholding information from Bourguiba and arbitrarily screening the President's appointment schedule. Bourguiba retains confidence in Farhat, however, and no doubt is sensitive to the need to have a loyal supporter in the defense post during the continuing dispute between the orthodox and liberal factions of the ruling Destourian Socialist Party over the liberalization of Tunisian politics.

Despite persistent rumors of more extensive cabinet changes, no other appointments are likely until fall. Several liberals reportedly have declined Bourguiba's offer of cabinet posts, and no reconciliation between the two factions is likely in the foreseeable future.

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**CHAD-FRANCE:** President Tombalbaye apparently plans to adopt a tough bargaining stance in reaction to France's termination of budgetary support.

Tombalbaye seems to believe there is room for maneuver in his present dispute with Paris and means to play his strongest card for the restoration of French financial aid by calling into question the continuation of the French military presence in Chad. Tombalbaye reportedly intends to announce in the near future the discovery of an alleged French-backed plot to overthrow his government. France will then be requested to renegotiate its 1960 military accord and certain other cooperation agreements with Chad.

France maintains an air base and army camp in Fort Lamy and elements of this force are presently assigned as a ready reserve to assist the French-advised Chadian military in operations against Muslim insurgents. Paris is disgusted with Tombalbaye's maladministration, however, and would not be disturbed if the current situation results in his fall. The French probably feel that any successor government would have to turn to Paris for support. Paris has valued the treaty under which it maintains its military foothold in Chad, but the French commitment to regional defense is not dependent on the retention of those bases.

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LAOS: Prime Minister Souvanna's dispute with the National Assembly remains unresolved. The powerful Sananikone family is again pressuring Souvanna to reshuffle the cabinet and drop Sisouk as finance minister in exchange for an assembly vote of confidence that would, in effect, endorse the government's tripartite facade. Souvanna has been trying to outmaneuver his opponents, but he suffered a rebuff yesterday when the assembly refused to consider the budget until the status of the government has been clarified. Souvanna probably will seek to delay a vote of confidence until he either reaches an acceptable compromise or calculates that he has sufficient strength to win this test. [redacted]

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KOREA: The agreement to begin plenary sessions of the Red Cross talks in Pyongyang on 30 August represents a compromise by both sides. The North has gained time to prepare for the arrival of the South Koreans, which Pyongyang's earlier delaying tactics suggested was needed. It has also succeeded in reducing the size of the delegation proposed by Seoul and in dictating what foreign correspondents will be permitted to observe the first meeting. Seoul, on the other hand, has obtained agreement to "reserve" discussion on Pyongyang's demand that representatives of political and social organizations be invited to the talks--an issue that is nonetheless likely to become a stumbling block in future discussions. The South Koreans probably hope to use the talks, which they will host on 13 September, to buttress their case for postponement of UN consideration of the Korean question next month. Seoul contends that the debate could jeopardize the North-South dialogue. [redacted]

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JAPAN-POLAND: Several major Japanese trading firms have jointly extended a \$200-million credit to Poland to finance purchases of Japanese industrial goods. The credit reflects increasing efforts by businessmen to expand sales to Communist countries. It will boost exports to Poland, which last year reached \$43 million, double the 1970 level. Earlier this year Japanese banks made available smaller trade credits to East Germany and Bulgaria, and negotiations for additional loans are under way with other East European countries. These [redacted] efforts have been encouraged by the Tanaka government, which recently revived the use of Export-Import Bank credits to finance sales to China. [redacted]

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CHILE: US copper companies have no further legal avenues open through which to seek compensation for mines expropriated by the Allende government. After ten months of delay, the special copper tribunal decided yesterday that it had no competence to review the President's decision that left the companies, rather than the government, in debt. Allende's formula was to deduct as "excess profits" a sum greater than the compensation due to the US firms. Company lawyers plan to appeal the court's move, but without any real hope of winning compensation. Whatever the legal merits of the case, the government has neither the will nor the resources to grant compensation beyond the minor settlements already completed. [redacted]

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MEXICO: President Echeverria has bluntly warned the new Chinese ambassador that he will be expected to respect Mexican principles of nonintervention and self-determination. During the formal credentials ceremony the President, well known for his frank public comments, told the Chinese diplomat that he was beginning relations with the Chinese Peoples' Republic "without fear or suspicions." He cautioned, however, that in Mexico, only Mexican solutions will be applied and "these are the rules of the game." Echeverria, as a former minister of interior, has long been concerned about the espionage activities of Communist embassies in Mexico City. In March 1971 he expelled five Soviet diplomats following the disclosure that a North Korean - trained guerrilla group had set up shop in Mexico. Members of this group were studying in Moscow at the time of their recruitment, so in Echeverria's eyes the USSR bore final responsibility for this interference in Mexican affairs.

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